

**Principles of Management**  
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**Lecture – 11**  
**Planning- III**

In Business Environment part 2 we will be discussing about the importance of business environment, types of business environment, how it helps in, how the organization evaluates it is business organization to develop its own strategies.

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**TYPES OF BUSINESS ENVIRONMENT**

**Task or specific environment** includes those sectors that **have a direct working relationship** with the organization. **Example**, customers, competitors, and suppliers.

- ❖ **Customers** are defined as *people and organizations who acquire goods or services from the organization*.
- ❖ **Example**, patients are the customers of hospitals, students are the customers of schools, and travelers the customers of airlines.
- ❖ **Competitors** are *other organizations in the same industry or type of business that provide goods or services to the same set of customers*.
- ❖ **Example**, Coca-Cola and Pepsi are competitors in the soft-drink market. Blue Dart and FedEx are competitors in courier industry.

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So, what we discussed earlier is the task or specific environment and the general environment assessment are very important. Task or specific environment includes those sectors that have a direct working relationship with organization. For examples; the customers, the competitors and the suppliers and how they influence the business organizations to take decisions.

Customers are defined as people and organizations who acquire goods and services from the organizations. Then competitors are the organizations in the same industry or the type of business.

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## TYPES OF BUSINESS ENVIRONMENT

- ❖ **Suppliers** provide the raw materials that organization uses to produce its output.
- ❖ **Example**, a steel mill requires iron ore, machines, and financial resources that are provided by suppliers.
- ❖ Many companies are using fewer suppliers and trying to build good relationships with them so that they will receive high-quality parts and materials at lower prices.
- ❖ The **relationship between manufacturers and suppliers** is important because:
  - ☐ saving money
  - ☐ maintaining quality
  - ☐ speeding products to market

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And they also influence the organizations. Suppliers provide raw materials that organizations use and the relationship between manufacturer and supplier is important because; it will help in saving money, maintaining quality and speeding up products to the market.

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## IMPORTANCE OF BUSINESS ENVIRONMENT

- Enables to **identify business opportunities** ✓
- Helps in **tapping useful resources**
- Coping with **changes**
- Assistance in **planning**
- Helps in **improving performance**
- To **adopt flexible style** of management
- To facilitate **quick decision-making process** with changing tastes, preferences of customers.

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So, importance of business environment- the business environment helps identify opportunities and it also helps in tapping useful resources and coping with or adapting with change. Assistance in planning- it helps organizations to make plans and strategies.

It helps in improving performance by assessment of the requirements of the business environment and adapts a flexible style of management. It helps in also improving the decision making process with changes in the needs and preferences of the customers and the impact of the external factors and it changes its strategies accordingly.

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**ENVIRONMENTAL APPRAISAL**

- ❖ Business environment is **rapidly changing** and it has a **great impact** on the functioning of the business.
- ❖ **Environmental appraisal** is the process of identifying opportunities and threats facing an organization.
- ❖ Environmental appraisal help the firm to:
  - ❑ understand **what is happening both inside and outside** the organization.
  - ❑ **congruence of organizational strategies** with business environment.
  - ❑ **identify strength, weakness, opportunities and threats** of business environment.
- ❖ **'SWOT' analysis** is necessary for the survival and growth of every business enterprise.

*Handwritten SWOT diagram on a chalkboard:*  
A central box labeled 'SWOT' is divided into four quadrants. The top-left quadrant is labeled 'strength', the top-right 'opportunities', the bottom-left 'weakness', and the bottom-right 'Threats'.

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So, the environmental appraisal is also an important component. Business environment is changing rapidly and it has a great impact on functioning of the business. Environmental appraisal is a process of identifying opportunities and threats. What are the opportunities and threats in the business organizations?

For example like Bisleri was a product which was known in the Indian market in the year 1964; when there was a no demand. So, at that point of time it was a challenge for Bisleri to launch its product when people were not even aware of. So, how did Bisleri identify opportunities and threats in the market and launch its product?

Similarly, there are several products which were like hand sanitizer. Several 10 years back there was no demand of hand sanitizer. People were not even aware of, but today hand sanitizer market has become replete with the products or it has become almost a necessity.

So, environmental appraisal is very important before launching any product. Environmental appraisal helps the firms to understand what is happening both inside and

outside the organization. Congruence of organizational strategies with business environment.

So, organizational strategies are aligned with the needs in business environment. Identifying the strengths opportunities of the organization, strengths and weaknesses of the organizations, and then aligning with the opportunities and threats in the business environment.

SWOT analysis is very important and necessary for survival and growth of every business organization or enterprise. There are several approaches of environmental appraisal one is a systematic approach, Ad hoc Approach and a processed form of approach.

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**APPROACHES OF ENVIRONMENTAL APPRAISAL**

- **Systematic Approach:** Information for environmental scanning is collected systematically. *Information related to markets and customers, changes in legislation and regulations, government policy statements, etc.,* could be collected. Continuous updating is necessary not only for **strategic management but also for operational activities**.
- **Ad hoc Approach:** Here, an organization conduct special surveys and studies to deal with specific environmental issues from time to time. Such studies may be conducted, for instance, *when organization has to undertake special projects, evaluate existing strategy or devise new strategies.* Changes and unforeseen developments may be investigated with regard to their impact on the organization.
- **Processed-form Approach:** The organization uses information in a processed form, available from different sources both inside and outside the organization. When an organization uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in processed form.

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Systematic approach means information for environmental scanning is collected systematically. There is a systematic method of data collection information related to markets, customers, changes in legislations, regulations, government policies and statements could be collected and continuous updating is necessary not only for strategic management, but for also operational activities.

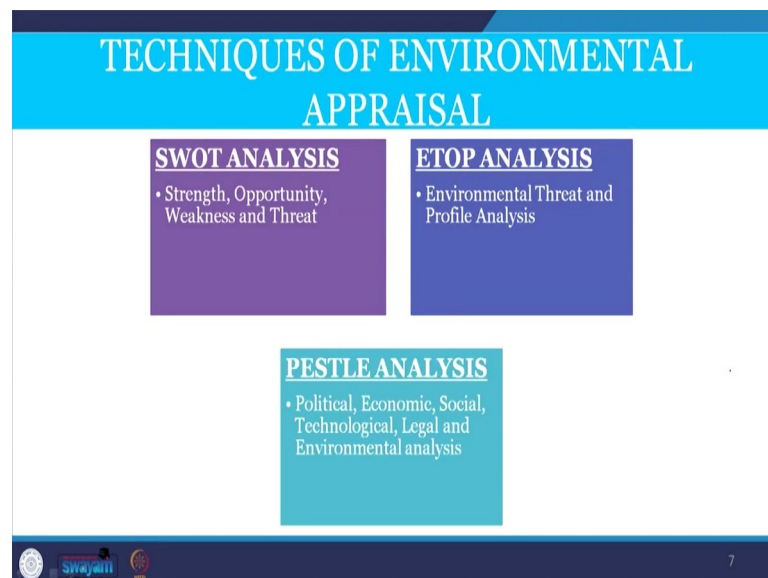
So, data is acquired from various sources; from the markets, from the customers. The market will give a kind of information regarding who are the competitors, what are the competitors, strengths and weaknesses. And how the customers' demands need

preferences are changing over a period of time. The impact of various legislations and regulations and its government policies etc. on the organizations.

So, Ad hoc approaches- here is an organizations conduct a special survey outs and survey studies to deal with specific environment; environmental issues from time to time. For example, there are specific environmental issues which can have an adverse impact on the organizations identity. So, such studies may be conducted say for example, because of a construction there is some adverse impact on the environment. So, Ad hoc studies are being conducted which can help the organization to take decision; special decisions to evaluate existing strategy reevaluate and devise new strategies. So, changes and unforeseen developments may be investigated with regard to their impact on the organization.

Processed form approach is another type of approach where the organization uses information in a processed form available from different sources both inside and outside of the organization. When an organization uses information supplied by the government agencies or private institutions it uses secondary sources of data and the information is available in a processed format.

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So, techniques of environmental appraisal; there are three techniques. One is SWOT analysis which is otherwise called strength, weakness, opportunities and threat analysis. ETOP analysis basically is environmental threat and profile analysis. PESTLE analysis

which consists of political, economic, social, technological, legal and environmental analysis. So, these are various methods or techniques through which business environment is appraised. And it helps organizations to take decisions accordingly. These factors have an influence on the PESTLE factors, the political factors, economic factors, social socio demographic factors.



Technological innovations have an impact on the organizations. Organizations discard their past practices and adopt new practices accordingly based on the various challenges in the environment.

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## INDUSTRY APPRAISAL

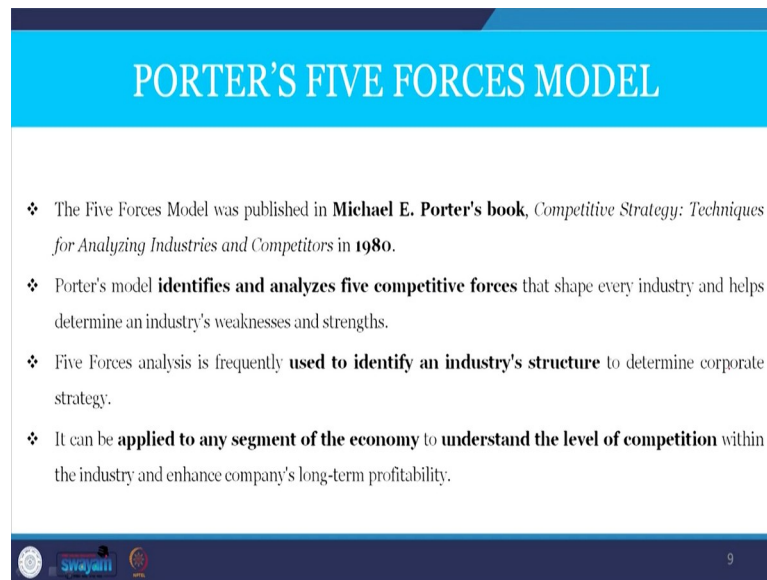
- ❖ Industry analysis is performed by business proprietors and other management experts to **evaluate the present business environment**.
- ❖ Industry analysis reviews the **economic, political and market factors that influence the way the industry develops**.
- ❖ Industry analysis **enables small business owners to identify the threats and opportunities facing their businesses**, and to focus their resources on developing unique capabilities that could lead to a competitive advantage.
- ❖ It consists of **three major elements**: the **underlying forces at work** in the industry; the overall **attractiveness of the industry**; and the **critical factors that determine a company's success** within the industry.

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Industry appraisal; industry appraisal or industry analysis is performed by the business proprietors and other management experts. They help evaluate the present business environment. Industry analysis reviews the economic political and market factors. The various market factors that influence the way the industry evolves and develops.

Industry analysis enables small business owners to identify the threats and opportunities which are facing the businesses. And to focus their resources to resources on developing unique capabilities that could lead to a competitive advantage. It consists of three elements; one is underlying forces at work in the industry.

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The slide features a blue header with the title "PORTER'S FIVE FORCES MODEL" in white. Below the header, there are four bullet points, each preceded by a blue diamond symbol. The text is black and provides key information about the model's origin, purpose, and application. At the bottom of the slide, there is a dark blue footer containing three small logos on the left and the number "9" on the right.

- ❖ The Five Forces Model was published in **Michael E. Porter's book**, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* in **1980**.
- ❖ Porter's model **identifies and analyzes five competitive forces** that shape every industry and helps determine an industry's weaknesses and strengths.
- ❖ Five Forces analysis is frequently **used to identify an industry's structure** to determine corporate strategy.
- ❖ It can be **applied to any segment of the economy** to **understand the level of competition** within the industry and enhance company's long-term profitability.

The overall attractiveness of the industry and the critical factors that determine a company's success within the industry. Michael Porter has given five forces model or otherwise called the five forces model was published by Michael Porters in his book competitive strategy.

Technique for analyzing industries and competitors this book was written in the year 1980. Porters model identifies and analyzes five competitive forces that shape every industry and helps determine an industry's weaknesses and strengths.

So, every industry develops its strategies based on these competitive strengths or five forces. This is otherwise also called industry analysis or business analysis. Five forces analysis is frequently used to identify an industry's structure to determine corporate strategy. It can be applied to any segment of the economy to understand the level of competition within the industry and enhance company's long term profitability.

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## PORTER'S FIVE FORCES MODEL

- ❖ The Five Forces model is widely used to analyze the industry structure of a company as well as its corporate strategy.
- ❖ Porter identified five undeniable forces that **play a part in shaping every market** and industry in the world, with some caveats.
- ❖ The five forces are frequently used to measure competition intensity, attractiveness, and profitability of an industry or market.
- ❖ **Porter's five forces are:**
  - ☐ Competition in the industry
  - ☐ Potential of new entrants into the industry
  - ☐ Power of suppliers
  - ☐ Power of customers
  - ☐ Threat of substitute products

Source: Robbins, S.P. and Coulter, M. (2012), *Management*, Prentice Hall, New Jersey, USA.

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Long term success of an organization can be defined. Porters five force model- the five forces model is widely used to analyze the industry structure of a company as well as its corporate strategy. Porter identified five undeniable forces that play an important part in shaping every market and industry in the world with some caveats.

The five forces are frequently used to measure competition, competitive intensity, attractiveness and profitability of an industry or market. These forces are competition in the industry or intense rivalry within the industry. Potential or threats of new entrants into the industry, bargaining power of buyers or customers, bargaining power of suppliers and threat of substitute products.

Intense rivalry within the industry; so in certain industries we can see like in the mobile phone segment, in the automobile industry there is intense rivalry as well as in aviation sector, there is intense rivalry within the industry with large number of players, and there is neck to neck competition be it in terms of providing products or services.

So, which makes the industry highly competitive in nature. Potential of new entrants in the industry. In some industries though the competition is intense where the competitors, where the companies have equal brand name and corporate identity and as well as a large group of potential customers large group of customers or loyal customers.

So, where a new company it becomes very difficult for a company to enter in the market, which is intense with or which is mostly saturated with competition. Power of suppliers;



bargaining power of suppliers- Suppliers can also regulate the industry by increasing or by increasing or by being more demanding.

They can increase their price they can dictate the company. Say for example, for pharmaceutical industries are suppliers for major hospitals. So, they can regulate the industry and they can regulate the competition within the hospitals.

So, if they stop supplying products on time that will be a threat to the hospitals. If the increased prices or say the short supply or increase in prices can disturb the nature of competition in the hospitals or the health care segment.

Threat- bargaining power of buyers; buyers can also have an impact on the industries strategy. Like large buyers' steel and aluminum manufacturers, aviation industry, the automobile industry, they are buyers of steel aluminum. So, they are large buyers and they also regulate the prices, they regulate the competition within that segment.

Threat of substitute products; substitute products can also be, they are also large forces within the industry. And like for example, for a sugar industry threat is from artificial sweetener. Similarly, for newspaper agencies the threat is the cable TVs, television news and so on.

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### NEED FOR RESOURCE AND CAPABILITY ANALYSIS

- ❖ Contemporary era demands optimal and effective utilization of scarce organizational resources and capabilities.
- ❖ Resource-based View considers firm as a bundle of resources and capabilities.
- ❖ These distinct resources and capabilities **underpin competitive advantage.**
- ❖ **Specific combination and coordination** of resources is critical to competitive advantage.
- ❖ Strategy based on **skilled diagnosis and creative solutions** are crucial for organizations.
- ❖ Detailed knowledge of market and competitive conditions is critical.
- ❖ Strategy based competitive analysis **create value** for organization and society at large.

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Next we will discuss about need for resources and capability analysis. Contemporary era demands optimal and effective utilization of scars organizational resources and

capabilities. Resource based view considers firms as a bundle of resources and capabilities. These distinct resources and capabilities underpin competitive advantage. Specific combination and coordination of resources is critical to competitive advantage.

As resource based view considers bundle of resources and capabilities. What are the resources and capabilities an organization has? These distinct resources and capabilities underpin competitive advantage. A firm can draw competitive advantage through the resources and its capabilities.

Specific combination and coordination of resources is critical to competitive advantage. Then the strategy based on skilled diagnosis and creative solutions are crucial for organizations. Detailed knowledge of market and competitive conditions is critical. Strategy based competitive analysis create value for organization and society at large.

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## RESOURCES AND CAPABILITIES

- ❖ Resources and capabilities are the sources of competitive advantage and the primary source of profitability for any firm.
- ❖ Collective competencies are built on the premise of resource pool's experience, skills and knowledge.
- ❖ Resources and capabilities empower a company to drive the business and face competition with their products and offerings for the need of customers.
- ❖ Capabilities are essential in order to enhance resource efficiency and effectiveness. ✓
- ❖ Resources and capabilities together ensure that you develop a competitive advantage that leads to a sustainable competitive advantage for the future.

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Now, let us discuss about the resources and capabilities. What are the resources? The resources and capabilities are sources of competitive advantage and the primary source of profitability of any firm. The resources are land capital and machinery, the infrastructure, the technology these are the resources of an organization. Capabilities; abilities of individuals to work on different assignments.

Collective competencies are built on the premise of resource pool expertise experience skills and knowledge. The competencies or the capabilities are the experience skills and

knowledge of individuals. The knowledge about how to or the know-how of an individual.

Resources and capabilities empower a company to drive business and face competition within their products and offerings for the need of customers. Capabilities are essential in order to enhance resource efficiency and effectiveness. So, capabilities knowhow, knowledge, experience of individuals.

Their specific skills, the skill sets like negotiation, the skills on say negotiation or conflict resolution leadership all these are important to enhance resource efficiency and effectiveness. Resource and capabilities together ensure that you need to develop a competitive advantage that lead to a sustainable competitive advantage.

So, when there is an intense competition in a particular industry. So, one organization will have to draw or one organization can be more competitive than other or other organization based on the existing resources or the strengths and capabilities.

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**RESOURCES**

**What is Resource:** A resource is anything that a firm has or has learned to do that enables it to conceive and implement strategies that improve its efficiency and effectiveness. (Haberberg and Rieple, 2001)

**Resources can be divided into:**

- **Tangible :** Physical and financial assets (Eg: Machinery, offices, warehouses)
- **Intangible :** Skills, reputation and brand names (Eg: Goodwill, Brand value)
- **Human Resources:** Skilled Employees

What is a resource? A resource is anything that a firm has or has learnt to do that enables it to conceive and implement strategies that improve its efficiency and effectiveness. Resources can be tangible resources, intangible resources or human resources. Tangible resources are basically the physical and financial assets.

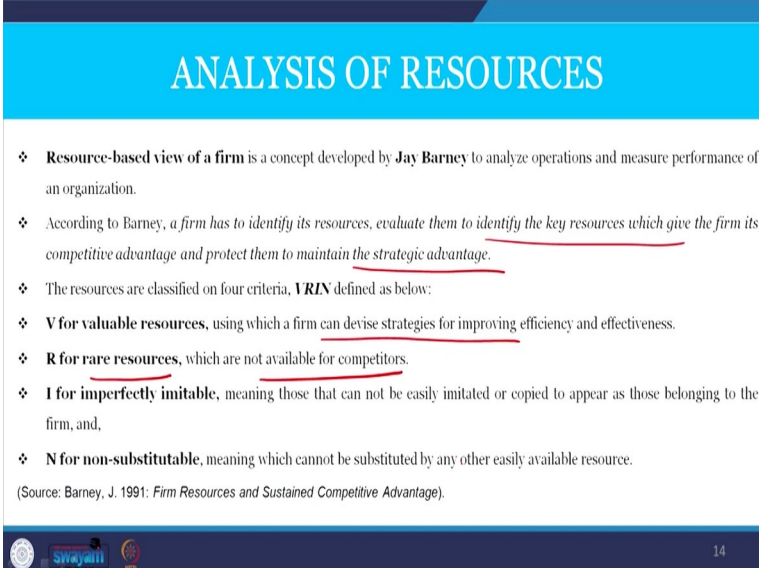
As already discussed we have been talking about the machinery, the office space, warehouses and land, capital, machinery, the financial assets, the financial strength of organization. Then intangible assets are basically; the skills, the skill sets of individuals and employees, reputation and brand image. The Goodwill or the corporate identity of an organization.

An organization like Johnson and Johnson, Nestle or say Tata motors or say Infosys have been able to establish themselves in the market for a long time because of their goodwill because of their the brand names which has been developed by their actions over a long period of time.

Human resources the skilled employees; how employees have been trained they have been developed and their ability to perform different responsibilities efficiently and effectively is also one of the resource an organization has.

So, analysis of resources if we do; resource based view of the firm is a concept which has been given by Barney to analyze operations and measures performance of an organization.

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**ANALYSIS OF RESOURCES**

- ❖ **Resource-based view of a firm** is a concept developed by **Jay Barney** to analyze operations and measure performance of an organization.
- ❖ According to Barney, a firm has to identify its resources, evaluate them to identify the key resources which give the firm its competitive advantage and protect them to maintain the strategic advantage.
- ❖ The resources are classified on four criteria, **VRIN** defined as below:
- ❖ **V for valuable resources**, using which a firm can devise strategies for improving efficiency and effectiveness.
- ❖ **R for rare resources**, which are not available for competitors.
- ❖ **I for imperfectly imitable**, meaning those that can not be easily imitated or copied to appear as those belonging to the firm, and,
- ❖ **N for non-substitutable**, meaning which cannot be substituted by any other easily available resource.

(Source: Barney, J. 1991: *Firm Resources and Sustained Competitive Advantage*).

According to Barney a firm has to identify the resources. The firm need to know what are the resources what are the capabilities it has, evaluate them to identify the key

resources. Certain resources are crucial for an organization to give firm competitive advantage and protect them to maintain the strategic advantage.

Let us say for example, Tata group is known for trust. Tata has been well known in Indian market because of the trust it has with its employees, with stakeholders, with the customers, with all the stakeholders, with the financial institutions because based on its value system of trust and strong value system.

Tata group has been growing with the value system of JRD with the ethical values set by the founders which the group has still been adopting. Similarly, Infosys has a strong culture with the founder's value system Narayan Murthy's values it has been moving ahead and has been most competitive.

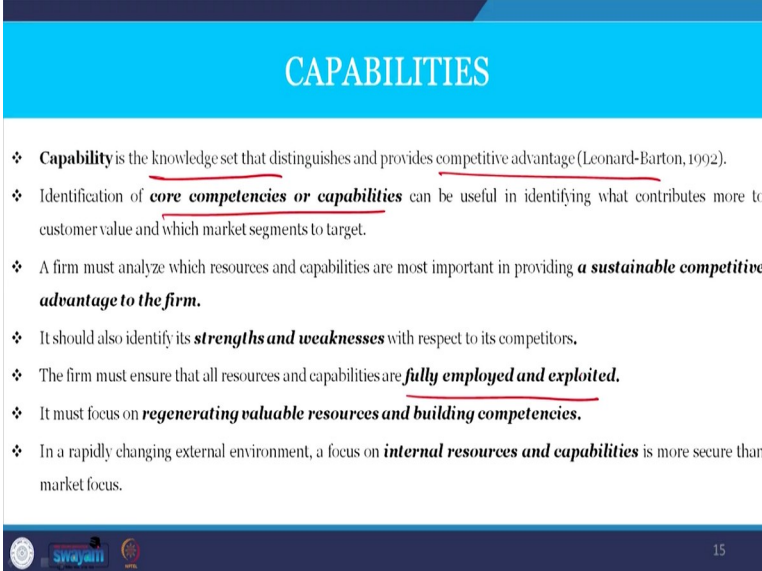
So, in some point of time or the other we see that organizations like; Apple which has been set up by Steve Jobs and several other companies like Johnson and Johnson's are a company's they are highly ethical in their actions and they have set up a reputation.

So, it is not just the physical assets or not the tangible assets, but intangible assets corporate brand name has been established by these companies because of or they have developed them their name their corporate identity.

So, resource based views as has analyzed that operations and measure performance. This says that the firm need to evaluate or identify the key resources which give the firm its competitive advantage and protect to maintain the strategic advantage.

The resources are classified into four criteria; V is for valuable resources using which a firm can devise strategies for improving efficiency and effectiveness. R is called rare resources, which are not available for competitors' certain unique strengths of the company. I is for imperfectly tangible imperfectly imitable which cannot be imitated by the other firms meaning that those cannot be easily copied and copied to as by the competitors. And N is non substitutable which cannot be substituted by any other firm easily.

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## CAPABILITIES

- ❖ **Capability** is the knowledge set that distinguishes and provides competitive advantage (Leonard-Barton, 1992).
- ❖ Identification of **core competencies or capabilities** can be useful in identifying what contributes more to customer value and which market segments to target.
- ❖ A firm must analyze which resources and capabilities are most important in providing **a sustainable competitive advantage to the firm.**
- ❖ It should also identify its **strengths and weaknesses** with respect to its competitors.
- ❖ The firm must ensure that all resources and capabilities are **fully employed and exploited.**
- ❖ It must focus on **regenerating valuable resources and building competencies.**
- ❖ In a rapidly changing external environment, a focus on **internal resources and capabilities** is more secure than market focus.

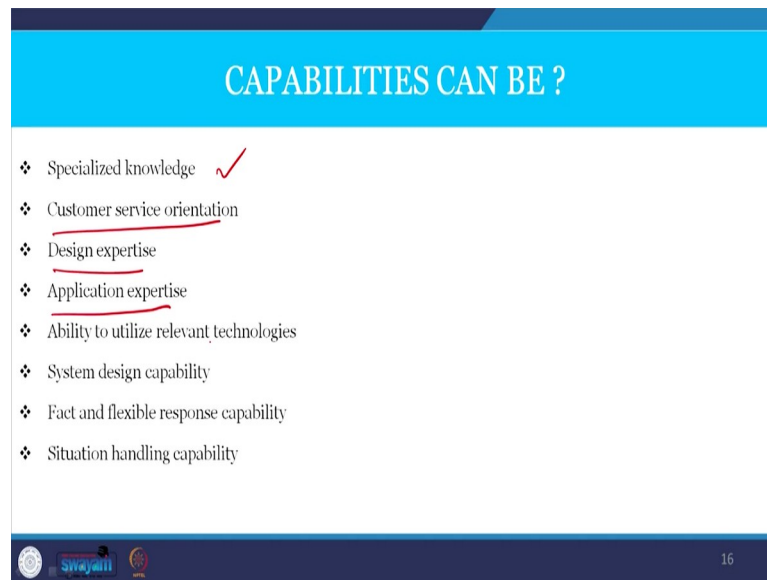
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So, capability is the knowledge set or the set of knowledge strengths that distinguishes and provides competitive advantage as proposed by Leonard Barton in the year 1992. Identification of core competencies or capabilities is very important can be useful in identifying what contributes more to the customer value and which makes which market segments to target.

A firm must utilize, a firm must analyze which resources and capabilities are not important in providing sustainable competitive advantage to the firm. It should also identify strengths and weaknesses with respect to its competitors. The firm must ensure that resources and capabilities fully employed and exploited their resource and capabilities are fully used or utilized for the success of the firm.

It must focus on regenerating valuable resources and building competencies in a rapidly changing external environment. In a fast changing environment, a focus on internal resource and capabilities is more secure than market focus.

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So, capabilities can be a specialized knowledge; customer service or orientation design expertise, application expertise, ability to use relevant technologies systems design capability, fast and flexible response capability, situation handling capability.

A specialized knowledge ability to handle say for example, firms the consultant firms like McKinsey are having the capability to analyze so to propose solutions for complex business problems. So, they have the competitive advantage comes through the analysts.

The business analysts who have been trained on data analysis techniques and who can also interpret the business environment, who can interpret this the problems, who can analyze the cause and effect relationship between the problems they can diagnose the problems and propose solutions in a most convenient manner to the organizations the client firm.

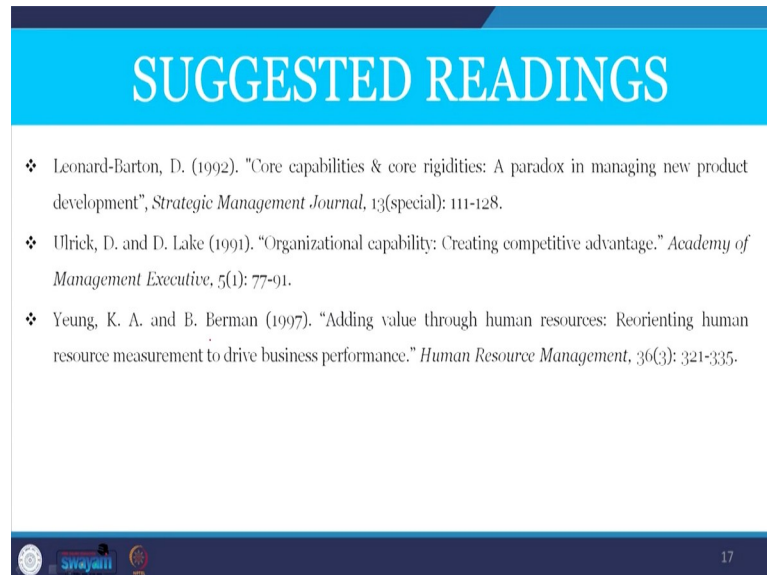
Customer service orientation; some organizations are known for the best customer service like for example, Southwest Airlines they are known as the best in customer service. So, the companies are known for some of the unique strengths they have design expertise.

Some firms are known for their expertise in designing application. Application oriented TCS, Tata Consultancy Service is known for its application expertise. Ability to use or utilize relevant technologies, systems design capabilities, fast and flexible responsible,



response capabilities, situation handling capabilities, certain companies are known for each of their unique strength.

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So, with this what we have discussed; we have completely discussed about the business environment, how important is assessment of business environment. We discussed about several approaches of business analyzing or accessing business environment.

We discussed about the PESTLE analysis the SWOT analysis and the how PESTLE analysis helps in assessing the general environment. And SWOT analysis helps in assessing internal strengths and weaknesses and identifying opportunities and threats which helps in overall changing the strategy of an organization. Organizations need to be equipped with industry analysis techniques proposed by Michael Porter that is; five forces.

What are the five forces in the business environment like; bargaining power of suppliers, the threat of new entrants, bargaining power of threat of substitute products, rivalry intense, rivalry within the intensity of rivalry within the industry.

So, the industry will be aware about the forces and it will help in setting up its resources and capability to develop competitive advantage for the firm. So, concluding this lecture what we discussed today; we have discussed about business environment and then we

discussed about the environment analysis and discussed about importance of business environment, environment appraisal.

And we discussed about various approaches of environment appraisal that is; systematic approach, Ad hoc approach, process to firm approach. Then techniques of environmental appraisal that is SWOT analysis, ETOP analysis, PESTLE analysis, industry appraisal or we discussed about Porters five forces model which is proposed by; Michael Porter in the year 1980 in his book competitive strategy techniques for analyzing industry and competitors. And then we have discussed in details about the Michael Porters five forces that is threat of new entrant suppliers, bargaining, power of buyers and intensity of rivalry and threat of substitute products.

And need for resources and capability analysis. Then resources and capabilities in details we discussed. So, concluding this we have understood the business environments role and how it influences or how it regulates the industry and it helps organizations to take decisions accordingly. So, with this we conclude here.

Thank you.